

CORPORATE PRINCIPLES AND MANAGEMENT

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ABSTRACT

The purpose of this study is to investigate whether the corporate principles, which are adopted by businesses to ensure their sustainability successfully, affect management by discussing them in detail. Research on the importance of generally accepted "best practices" in corporate principles has failed to find convincing connections between these practices and organizational management. We discuss research outcomes on the relationship between some principles (fairness, accountability, responsibility, social awareness, independence, and discipline) and organizational management, and find this relationship to be significant.

INTRODUCTION

The concept of corporate principles is a management philosophy that aims to protect the rights of the stakeholders that are directly or indirectly related to the activities carried out by the company including shareholders and to reveal the obligations of business management in any business (principles). The essential elements of corporate principles consist of corporate governance and management theories (Dereköy, 2015). Corporate principles are also defined as the whole of mechanisms developed to harmonize conflicts of interest that may arise among all stakeholder segments (Ülgen & Mirze, 2010). The implementation of basic corporate principles which are fairness, transparency, accountability, and responsibility and which are argued to have the principles of social awareness, independence, and discipline in the international source (CLSA, 2001) is encouraged by the states, and sectors, associations, and non-governmental organizations.

Corporate principles can also be determined by non-governmental organizations with legal sanction power except for a public regulatory authority (Şen, 2013). It is believed that the businesses will reach a stable high performance, the security of the shareholders will be ensured, and the rights of stakeholders will be secured through the principles specified. Corporate principles regulate businesses' process applications and mobility in the market and propose to approach internal and external environmental components with the same importance, attitude, and procedure. In this context, it is seen that corporate governance practices changed the businesses' form of doing business (Fox-Wolffgramm et al., 1998) and penetrated their attitudes and movements in the market.

Corporate principles have been admired as an emerging aspect in past decades to improve the performance of companies (Kwak, 2003; Black et al., 2003). Because the best practice of corporate principles diminishes threats to stakeholders, attracts investment capital, and enhances the performance of companies (Spanos, 2005). Good corporate principles increase the profitability of companies and the long-term value of firms (Khumani et al., 1998). Hence, it has become an important concept for every company. Moreover, failures of companies were taken place in the mind of researchers to study corporate principles and practices. The corporate principle is a broad concept and it is not easy to describe due to continuously expanding the boundaries of the concept. The definition may vary based on the different perspectives of researchers. Corporate principles specify the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs". However, some definitions of corporate principles are generally classified into value creation and value protection which is accomplished

through corporate governance (Heenetigala, 2011). According to Heenetigala (2011), Value creation indicates developing the long-term goals for sustainable performance by focusing on the shareholders of the company. Value protection is based on the accountability of managers and protects the interest of both shareholders and stakeholders (Rezaee, 2009). Stone & Andrew et al. (1998) state that "making such set of laws and motivation through which administration of the company is bounded and administered for profit maximization which ultimately adds the value for shareholders as well as for management". Hermalin (2005) and Lee (2008) indicate that "the concept of corporate principles lies in between all these aspects and management of organizational resources fairly while concerning the interests of all stakeholders".

The ground of corporate principles which consist of four(4) basic principles including transparency, fairness, accountability, and responsibility was expanded, and the factors of social awareness, discipline, and independence were added and included in the study. Corporate principles are briefly mentioned below:

The Principle of Transparency: Members of the United Nations define the concept of transparency as the fact that access is not prevented by the public for convenient and reliable information in the performance and decisions in the public sector (Armstrong, 2005). The principle of transparency is the punctual statement of adequate and accurate information about the company's financial performance, corporate governance, co-partnership structure, business, and activities (TÜSİAD, 2002). In addition, transparency is also referred to as the announcement of financial and non-financial information about the company in a timely, accurate, complete, understandable, interpretable, and low-cost manner to the public, except for the information that is a trade secret and has not yet been announced to the public (SPK, 2005). Along with the principle of transparency, the flow of economic, social, and political information about the use of loans by investors, the credibility of those who use credits, the presentation of public services by the states, and the activities of international organizations are ensured in an accurate, reliable, complete and timely manner (Vishwanath & Kaufman, 1999).

The Principle of Fairness: refers to the fact that the corporate principle treat shareholders and stakeholders equally in all its activities and the prevention of various adverse and potential conflicts of interest that may arise in this way (TÜSİAD, 2002). The principle of fairness sets forth the fact that corporate principle treat shareholders and stakeholders equally in all its activities and the prevention of potential conflicts of interest (SPK, 2005). This principle allows for business executives to be equidistant from all the sectors to be affected by the decisions to be taken and to protect not only the rights of a particular sector but also the rights of all parties necessary for the survival of the company (Doğan, 2007).

The Principle of Accountability: The principle of accountability refers to the clear definition of principles rules and responsibilities and the protection of the company management and shareholder interests by the board of directors (TÜSİAD, 2002). In addition, accountability is the disclosure of governance roles and responsibilities, the provision of voluntary support to ensure the compliance of its shareholders and managers, and monitoring them by the board of directors with objective jurisdiction (Millstein, 2000). Along with accountability, businesses become open to society by providing the flow of accurate, complete, and unbiased information related to their actions to the public and the relevant people as a result of the pressures of various institutions to gain legitimacy and take the responsibility for the consequences of their actions (Apaydın, 2007). Thus, managers' tendency to make unexpected decisions, the tendency of managers with an important place in representation problems to keep their interests before the corporate interests, and the conflicts of interest experienced by managers and shareholders are expected to decrease (Doğan, 2007). Businesses become accountable by complying with the standards and principles

agreed on by various institutions (Apaydın, 2009). Accountability is described as the ultimate protector of transparency and transparency is shown as the complementary element of accountability (Samsun, 2003).

The Principle of Responsibility: The principle of responsibility is to ensure the compliance of corporate activities and behaviors with the relevant legislation, and social and ethical values (TÜSİAD, 2002). The principle of responsibility refers to the compliance of all activities of the company management in the name of the company with the legislation, articles of partnership, and intercorporate regulations and the inspection of this (SPK, 2005). While accountability allows authorized users to explain their actions and the reasons for them, responsibility allows for the investigation of whether the duties from the perspective of those who impose duty are fulfilled as required and the responsibilities have been used appropriately (Doğan, 2007). The concept of corporate responsibility refers to the applications foreseeing those businesses can respond to social expectations to strengthen the interdependent relationship between business and society (Witherell, 2002).

The Principle of Social Awareness: refers to the initiatives that emphasize the effect of the company on society and is mostly considered as a company's liabilities against its stakeholders and shareholders. The fact that the corporate principles are built on a solid basis and ensuring the continuity of this management approach is possible with the adoption of a social awareness envisaging a social acceptance by the business. In terms of businesses, social responsibility pays regard to the benefit of society while performing the applications and is the fact that the business management and employees undertake the consequences of these actions (Apaydın, 2008). No success will be achieved in paying regard to the needs of stakeholders in a balanced manner without corporate transparency, public disclosure, and social awareness (Robertson & Nicholson, 1996). There are pressures from environmental actors for businesses to fulfill the social responsibility obligation and the fact that the businesses exhibit social responsibility allows them to fulfill the expectations of these actors and increases their social acceptance (Greening & Gray, 1994).

The Principle of Independence: refers to the fact that the Members of the Board of Directors and top management act in a way to pay regard to investors' rights in all their activities and decisions without being dependent on any institution, organization, group, or individual. The principle of independence in the context of corporate principles is the fact that the neutrality of the business corresponds to the protection of the interests of all stakeholders rather than the benefit of a person or group. Independence requires the absence of a professional or personal relationship with any manager with a company or management. At this point, the board of directors and the audit committee should be independent of the company management (Şen, 2013). Independent and effective external members should be included in management, and participation at all levels should be made widespread (Ülgen&Mirze2010).

The Principle of Discipline: When the discipline factor is evaluated in terms of corporate principles, it is considered the main element of corporate governance. The fact that the relevant laws and legislation applications are accepted as an important macro-determinant of corporate principles in the markets is the reason for this (CLSA, 2001). This situation involves the active implementation of the procedures and practices that can provide benefit to all stakeholders within the corporate principles. At this point, the principle of discipline establishes a relationship between corporate governance and business procedures and applications. Corporate principles have the feature of a strategic guide to the company about the effective supervision of the board of directors and the responsibility of the board of directors towards the company and stakeholders (Şen, 2013).

Concept of Management

Management is a key activity in organizations. Managers play an important role in the organizations in all areas or departments: Human resources, finance, production, maintenance, accounting, and others. Henri Fayol (1841 – 1925) is considered the icon of management. Fayol was the first who established the five functions of management, namely: Planning, Organizing, Commanding, Coordinating, and Controlling. With the development of economics science, the Commanding and coordinating were combined and in fact, constitute the Leading. So, the management framework is formed by: Planning, Organizing, Leading, and Controlling (P-O-L-C framework). Among the most popular and frequently raised questions by scholars in an organization's strategic management is a firm's different performance and to achieve superior organizational performance (Crook, Bratton, & Street, 2006). Firm performance is one of the most important constructs in management research. In the strategic management literature, there were conceptualizations of organizational perspectives over the years.

Among these conceptualizations, the dimensions which should be measured and for whom the organization performs were the dominant ones. The following are different perspectives on these two issues from the strategic management literature. First, regarding the dimensions which should be measured, some researchers recommended as follows: According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment); (b) product-market performance (sales, market share); and (c) shareholder return (total shareholder return, economic value-added). The final measure of organizational performance is survival. To this end, Drucker (1954) proposed eight different performance dimensions. The eight dimensions are all necessary for the long-term survival of the organization, which is the ultimate test of performance. These dimensions include (1) innovation, (2) productivity (3) market standing relative to market potential both now and in the future, (4) physical and financial resources, (5) worker performance and attitude, (6) profitability sufficient to cover the risk premium for being in business, (7) public responsibility, and (8) manager performance and development (Drucker, 1954).

Besides, central to the study of management is an understanding of the goals and objectives of the organization and the procedures used to measure their achievement (Andrews, 1987; Ansoff, 1965; Drucker, 1954; Hofer, & Schendel, 1978; Schendel, & Hofer, 1979). So, Drucker's (1954) perspective is both multi-constituency and multidimensional. Second, regarding whom the organization performs, scholars suggested as follows: According to Freeman (1984), an organization had to utilize its relationships with stakeholders to accomplish both organizational goals and stakeholder goals. In his proposal, stakeholders are resources to accomplish organizational objectives. Therefore, accomplishing organizational goals requires satisfying at least the minimal interests of all stakeholders. Likewise, Porter (1985) argued that the goals of the overall organization are established to reflect the objectives of business units' needs. In this context, some business units might be tasked with higher sales growth, while other business units may be tasked with higher cash generation to finance the sales growth in more productive areas. From this, we can understand that Freeman (1984), as well as Porter (1985), adopt a multi-constituency and multi-dimensional perspective of organizational performance.

CONCLUSION

This study investigated the impact of corporate principles on organizational management and concluded that some of the reasons why organizations collapsed in the past among others include creature accounting, a process whereby accounting standards were evaded in the preparation of statements, lack of public confidence in the financial reporting of most organizations due to creature accounting, paucity of information and consequences of corporate politics became barriers to stakeholders. More so, systemic problems were also an issue because they brought imperfections in the financial reporting process which caused imperfections in the effectiveness of corporate principles, perceived in the ability of the board of directors to control their organizations

and major difficulties in the relationship between auditors and the board of directors in the preparation and presentation of financial statements. Also, the board was not accountable for their actions and decisions.

Consequent to the review of the literature and the findings of this study, we recommend therefore that there should be a periodic review of the corporate principles in place in the organization as this will the organization to review the performance of the structure in consonance with the realities of the internal and external environment of the organization just as the code of best practice approved by boards of Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC) being regulatory authorities should be implemented in the organization. Furthermore, the roles and responsibilities of those concerned with the implementation of good corporate principles should be properly defined. Also, there should be a code of ethics in place that should address ethical issues, establish compliance standards and provide mechanisms to report unethical behavior including disciplinary measures for any possible violations. Conclusively, good corporate principles should be designed in line with the circumstances surrounding each corporation according to changing circumstances and the performance of the board, its committees, individual directors, and key executives should be reviewed regularly and the process for performance evaluation should be disclosed.

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